Threat to Indian Software Companies

*260. SHRI RUMANDLA RAMACHANDRAIAH: Will the Minister of INFORMATION TECHNOLOGY be pleased to state:

(a) whether with the slowdown in the US Infotech sector, large American consulting companies are posing a major threat to Indian software companies that seek to ride on the offshore model;

(b) if so, what are the main reasons for posing a threat to Indian software companies; and

(c) what steps Government propose to take to meet such threat?

THE MINISTER OF INFORMATION TECHNOLOGY (SHRI PRAMOD MAHAJAN): (a) and (b) A number of major overseas players are setting up 'Business Process Outsourcing' (BPO) projects (both outsourcing/outlocation) in India. National Association of Software and Services (NASSCOM) believes that through this process India stands to gain through:

1. Foreign Direct Investments

2. Additional Employment opportunities

3. Access to newer technologies and business practices.

4. India becoming a preferred destination for BPO and software development. NASSCOM does not perceive this trend as a threat to Indian software industry, but recognition of skills of Indian professionals, top quality solutions incorporating latest technology at a globally competitive price. It also affords an opportunity for India IT software and services companies to best practices followed by top companies worldwide.

(c) The steps taken by the Government to promote the Indian software Industry are given in the Satement.

Statement

Incentives for Software Sector

1. Export Promotion Capital Goods scheme (EPCG) has been rationalised and extended uniformly to all sectors without any threshold limit on payment of 5% duty.
2. Approvals for all foreign direct investment proposals relating to the Information Technology sector, with the exception of Business-to-consumer (B2C) e-commerce are under the automatic route.
3. Software Technology Parks (STP) Scheme is implemented under the aegis of the Ministry of Information Technology through a single window mechanism of the Inter-Ministerial Standing Committee (IMSC).
4. Accelerated depreciation norms for computers and computer peripherals for units under Export Oriented schemes (EOU/EPZ/STP/EHTP) have been enhanced. These shall stand depreciated to overall limit of 90% over a period of 3 years instead of around 5 years earlier.
5. DTA access upto 50% of the FOB value of export is permitted for software units under EOU/STP schemes.
6. In the 2000-01 Budget, Customs duty on Computers and Peripherals had been reduced from 20% to 15% and continues to be same. The Customs duty on all storage devices, integrated circuits, microprocessors, data display tubes and deflection components of colour monitors also continues at 0%. In the 2001-02 Budget, Customs duty on Information Technology Agreement (ITA-1) items of WTO (IT and Telecom products) has been reduced from existing 20—25% to 15%.
7. Information Technology Software is exempted from Customs and Excise Duty.
8. EOU/EPZ/STP/EHTP units are exempted from payment of Income Tax on export profits, upto 2010, in terms of Section 10A and 10B of the Income Tax Act. On site development of

computer software and services will also be eligible for tax exemption.

9. Definition of Computer Software, as in Section 80 HHE of the Income Tax Act has been widened to include transmission of data.

10. Benefit of Section 80 HHE is available to supporting software developers.

11. Exemption of withholding tax on interest on External Commercial Borrowings (ECBs) has been extended to the IT sector.

12. IT Enabled Services have been made eligible for Income Tax benefit under Sections 10A, 10B and 80HHE of the Income Tax Act.

13. A National Venture Fund for Software and IT Industry (NFSIT) has been set up with a corpus of Rs. 100 crores, out of which MIT shall contribute Rs. 30 crores.

14. Income by way of dividends or long-term capital gains of a Venture Capital Fund or Venture Capital company from investment made by way of equity shares in a Venture Capital Undertaking, which has been expanded to include the Software and IT sectors, will henceforth not be included in computing the total income.

15. To give thrust to Venture Capital finance, SEBI has been made the single point nodal agency for registration and regulation of both domestic and overseas venture capital funds.

16. There will be no tax on distributed or undistributed income of Venture Capital Funds. The income distributed by the VCFs will only be taxed in the hands of the investors at the rates applicable to the nature of the income. VCFs will continue to be eligible for exemption even if the shares of the VC undertaking in which the VCFs have made the initial investment are subsequently listed in a recognised stock exchange in India.

17. Under policy on portfolio investment, Foreign Institutional

Investors (FIIs) are permitted to invest in a company upto an aggregate of 24% of equity shares, extendable upto 40% subject to approvals. This limit has been raised from 40% to 49% in the Budget 2001-02.

18. Under the Employee Stock Option Scheme, income tax payable on income from GDRs purchased in foreign currency by a resident employee of IT software and service companies, shall be at a concessional rate of 10%.

19. Tax holiday under provisions of Section 80-IA (Infrastructure Status) has been extended to Internet Service Providers (ISPs) and Broadband Network providers.

20. Two-way fungibility has been permitted for ADRs/GDRs. Local shares can now be reconverted into ADRs/DGRs, subject to sectoral caps.

21. To induce more investment for R&D activities, a weighted deduction of 125% on the sums paid to any university, college or an institution or a Scientific research association for the purposes of scientific, social or statistical research has been provided.

22. Information Technology Act 2000 has been enacted. This act deals with Cyber Security, Cyber Crime and other information security related legal aspects. This will encourage expansion of e-commerce through internet.

23. Software Technology Parks of India (STPI) has set up a business support Centre in the USA, which is operational since November, 1999, to promote business for STP units and provide marketing support to SMEs.